

REMARKS

Art rejections

The art rejections remain respectfully traversed.

Since the references are many and/or complex, Applicants will confine their remarks to those portions of the references cited by the Examiner, except as otherwise indicated. Applicants make no representation as to the contents of other portions of the references.

Any of the Examiner's rejections and/or points of argument that are not addressed below would appear to be moot in view of the following. Nevertheless, Applicants reserve the right to respond to those rejections and arguments and to advance additional arguments at a later date. No arguments are waived and none of the Examiner's statements are conceded.

What is a POD module?

After reading the first page of the office action, the undersigned was immediately struck with the question "What on earth is a 'POD module' anyway?" Accordingly, the undersigned undertook some Internet surfing to try to find an answer to this question.

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The undersigned located some other patents referring to this concept, especially US 6,951,531, see especially claim 1, though these modules are discussed in several places; US 6,757,909, especially columns 8 and 9; and US 6,993,132, especially the background of the invention section

A POD module 58, which is removable from the host 50 provides security and user authentication. The POD module 58 contains functionality that is associated with a proprietary conditional access system of a local cable provider or multiple system operator (MSO) 60 ... To allow portability, encryption and security are separated from the host 50 and are located in the POD module 58. When inserted into the host 50, the POD module 58 decodes encrypted content from the cable provider 60. col. 1, line 56 through col. 2, line 15

She also located a couple of articles, copies attached, especially an NDS announcement and a SCM Microsystems announcement. The first paragraph of this last article appears most helpful, and is consistent with all the other documents:

“The point-of-deployment (POD) module will provide cable operators with a removable security device at the customer’s location that is tied to their particular service so that customers can buy a single set-top box or television (host device) from their local retailer and use it with any cable provider”

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In light of these many sources, it becomes clear that the Examiner's interpretation of element 156 of Margulis as being a POD module is incorrect. Margulis' element 156 is just a wireless base station that allows for communication with a remote TV 158. It is not a security device tied to a particular service. It has nothing to do with accessing the cable service directly. The cable decoder is located at 120 of Margulis.

The undersigned therefore respectfully submits that the Examiner has mischaracterized the reference. Withdrawal of the rejection is accordingly respectfully requested.

Margulis/Bessel combination

Applicants maintain their argument that it is not obvious to combine these references; however, even if these two references were to be combined the result would not be the claimed invention. The mere fact that Margulis teaches a wireless base station 156 fails to teach or suggest that the POD card of Bessel would be wireless. A unit with a POD card such as Bessel could also have a wireless base station per Margulis, in order to communicate with other consumer electronics devices, without the POD card itself being wireless. Applicants respectfully submit

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that the inference that the POD card itself would be wireless comes from impermissible hindsight in light of Applicants' disclosure, not from the references. Applicants accordingly submit that the Examiner has failed to make a *prima facie* case against the independent claims.

Section 112 rejection: claim 22

The limitation objected to by the Examiner is removed herein. Applicants respectfully submit that the claim should nevertheless cover the dual wireless situation, because even if it is not specifically mentioned in the specification it is not precluded by the specification and is in any case equivalent to what is contained in the specification.

Bessel/Margulis/Hendricks.

The combination with Hendricks seems to stem from a misunderstanding of what a POD is. The POD is a security device that gives access to a particular service, while Hendricks appears to be merely a networking device. Hendricks fails to teach or suggest removability of a POD. If the Hendricks device were added to Bessel, the result would simply be the device of Hendricks with a POD to

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allow access to a particular cable service. The result would not be the claimed invention, where the change of POD allows access to a second functionality because the second POD is a new security device.

The Examiner cites hardware updates for Hendricks. Any device might have the ability to be updated in hardware, for instance, it is common for a PC to have slots into which new peripherals, cards, or memory can be inserted. This has nothing to do with the claimed invention.

Applicants accordingly respectfully submit that the Examiner has failed to make a prima facie case against claim 22.

The Yukie reference would appear to be moot in view of the amendment. The amendment was not made, however, to remove the relevance of the Yukie reference. The claim could still cover a doubly wireless POD, because the Yukie reference does not relate to POD's at all.

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Applicants respectfully submit that they have addressed each issue raised by the Examiner — except for any that were skipped as moot — and that the application is accordingly in condition for allowance. Allowance is

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SCM Microsystems Teams with Industry Leaders to Demonstrate Significant Milestone Enabling Retail Market for Cable TV


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LOS GATOS, Calif., Aug. 3 /PRNewswire/ -- SCM Microsystems Inc. (Nasdaq: SCMM; Neuer Markt: SMY), a leading OEM supplier of digital access control and connectivity solutions, teamed with major consumer electronic manufacturers, head-end providers and conditional access system suppliers to successfully demonstrate interoperability of removable security modules with the first generation of OpenCable(TM) cable-ready device prototypes last week at the OpenCable(TM) POD Interoperability Event in Colorado. The point-of-deployment (POD) module will provide cable operators with a removable security device at the customer's location that is tied to their particular service so that consumers can buy a single set-top box or television (host device) from their local retailer and use it with any cable provider.

To prepare this demonstration and extend the market interoperability, SCM has jointly created the POD Interoperability Forum with DiviCom(R), Mindport, NagraVision, NDS, Panasonic, Philips, Pioneer, Samsung and Sony. The group is a forum open to any new participant willing to support "built for interoperability" products and rely on CableLabs(R) to measure and certify progress.

"The demonstration this week marks a significant milestone," explained Nick Efthymiou, executive vice president and general manager of SCM Microsystems' Digital TV and PC Security Division. "For the first time, we can see multiple prototypes that aim to support a complete OpenCable(TM) system, working together. It is the result of companies which have overcome their mutual competitive interests and solved several compatibility issues. This achievement provides an architecture which permits the integration of new features such as out-of-band channels and copy protection of premium content. We look forward to continuing to work with our current partners and CableLabs(R) in resolving these issues, and hope to see the number of companies participating in these interoperability demonstrations expand."

The demonstration showed Panasonic, Philips and Samsung receiver prototypes connected to a DiviCom head-end and receiving through four different POD prototypes, channels simultaneously encrypted by Mindport, NagraVision, NDS and Philips conditional access systems. SCM provided POD interface hardware, software and development tools to the consumer electronic manufacturers and various POD module platform prototypes to the conditional access suppliers.

In addition, SCM demonstrated its new development and certification tool, the POD Tool(TM), developed under contract from CableLabs for POD host interface validation of the OpenCable(TM) cable-ready TV receivers, and announced its market availability for the end of August 99.

"SCM is committed to supplying a cost-effective, interoperable POD module platform to all conditional access vendors by July 2000," said Steve Humphreys, SCM Microsystems' chairman. "By providing our proven technology, we expect the forum to reach the level of interoperability required to comply with the FCC's Order of June 1998, and for a successful retail market."

The Telecommunications Act of 1992 and 1996 require that cable subscribers have the option to purchase the equipment required to receive cable service. The FCC's Report and Order released in June of 1998 requires that the cable

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operators enable the commercial sale of host devices by making separable security modules available by July 1, 2000.

Quotes from SCM's POD Interoperability Forum Partners

"The OpenCable initiative is changing the dynamics of the US cable market and DiviCom is pleased to deliver the leading edge technology that fuels these changes," said Tom Lookabaugh, President of DiviCom Inc. "By opening the cable market to true competition, service providers will benefit from an expanded range of dynamic services and technology, as well as a reduced cost of ownership for a digital television system."

"Mindport is a highly experienced global end-to-end system solutions provider with cable, satellite and ISP customers in more than 50 countries," said Phil Braden, President of Mindport Inc. (Nasdaq: MXML). "Mindport believes in open standards and is extremely well versed with the challenges of successfully implementing multi-vendor, interoperable systems. The development of the POD module, combined with our proven technology portfolio and experience will enable Mindport to provide open, standards-based solutions to the North American cable television market."

"Retail availability of Digital Cable Set-top Boxes and, in the near future, Digital Televisions that support Pay services, will require interoperable, highly secure and, most importantly, cost effective Conditional Access infrastructures," said Alan Guggenheim, NagraVision's SVP of Strategic Business Development. "NagraVision is committed to providing compelling, OpenCable-compliant solutions by July 2000."

"NDS looks forward to offering its conditional access POD module-enabling the cable industry to make the most of its digital future. In an open and competitive conditional access environment, the cable industry will be able to offer lower costs, better security, and advanced services such as interactivity and electronic shopping," says Dr. Dov Rubin, Vice President and General Manager of NDS Americas Inc.

"We are actively engaged in and committed to the development of OpenCable-compliant cable navigation devices for the US market," said Frank Romeo, Director of Panasonic AVC American Labs' Technical Marketing Department. "The POD interoperability testing at CableLabs is an important milestone in the development of these devices."

"Philips is committed to integrate the OpenCable POD module interface in our set top boxes by July 2000. The CryptoWorks conditional access system integrates in Open standards, for July 2000 we will have a CryptoWorks POD module available."

"Pioneer is actively engaged and committed to the concept and development of OpenCable-compliant products for the US retail market," says Neil Jones, Sr. VP Business Development for Pioneer Digital Technologies, Inc. "The development of a POD module for the retail digital set-top is an important turning point for the cable TV industry, and Pioneer is ready to play a major role in it."

"The POD module interoperability test is a great milestone in the OpenCable development," said Jack Chaney, Director of Samsung's Multimedia Technology Center. "The POD module and interface is a necessity for an open retail market for cable ready devices."

"By providing a renewable and replaceable core conditional access system, the POD module ensures retail availability of cable navigation devices, allowing multiple models of cable ready devices to coexist within any cable Multiple System Operators (MSOs) network," said Henry Derovanessian, Vice President of Sony's Digital Media of Americas Engineering group. "Through the OpenCable initiative, Sony is committed to support CableLabs' effort to define

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and draft set of standard interfaces to reach the level of openness and interoperability essential for a competitive and prosperous retail market."

About SCM Microsystems

SCM Microsystems, Inc. (Nasdaq: **SCMM**), with headquarters in Los Gatos, California, European headquarters in Germany, research, development and support centers in France, India, Japan, Germany, and the United Kingdom, and production, sales and engineering facilities in Singapore and Taiwan, is a leading provider of products and technologies which enable OEMs to provide applications for endusers to control, access, and exchange digital information with digital platforms like PCs and digital TV set-top boxes. SCM Microsystems is a leading developer and supplier of plug and play OEM peripheral interfacing technology, including ASIC interfacing solutions, firmware, and software. By bridging smart cards, digital media cards and other secure devices with PCs, Workstations and digital set-top boxes, SCM Microsystems provides cost-effective solutions for conditional access to mobile, handheld and desktop computers, workstations, digital video broadcasts, virtual private networks, electronic files, and e-mail.

For additional information, contact SCM Microsystems in the United States at (408) 370-4888 or in Europe at 49-8441-8960 or e-mail adaptor@scmmicro.com. The company maintains a Web site at <http://www.scmmicro.com>.

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Announcement

NDS AND SCM MICROSYSTEMS DEBUT OPEN END-TO-END DIGITAL CABLE SOLUTION FOR KOREA

Highlights:

- NDS shows proven conditional access solution for Korean OpenCable™ broadcasting
- SCM Microsystems brings world's leading removable security platform to Korea's digital cable TV roll-out

Seoul, KOREA – July 31, 2002 - NDS Group plc, a News Corporation company and a leading provider of technology solutions for digital pay TV, today announced it has completed development of an open end-to-end cable TV system for the Korea cable TV market in conjunction with strategic partner SCM Microsystems (Nasdaq: SCMM, Neuer Markt: SMY).

The parties will demonstrate the end-to-end system at the inaugural meeting of the Korea Digital Cable Forum in Seoul on July 30, 2002. The system utilizes NDS's Open VideoGuard™ conditional access security in an OpenCable™ POD (Point of Deployment) module developed and manufactured by SCM Microsystems, running on an OpenCable set-top box from LG Electronics.

The Korean government is preparing to deploy digital cable television to between five and eight million households in Korea over the next five years. Cable TV broadcasts will be secured through traditional encryption procedures, but will be decrypted by subscribers via removable security modules rather than proprietary set-top boxes.

Ms. Sue Taylor, Vice President and General Manager of NDS Asia Pacific Ltd. said, "NDS's Open VideoGuard conditional access supports over 28 million subscribers worldwide. NDS has been a pioneer in the push to insure interoperability between set-top boxes and POD security modules through OpenCable. For Korean cable TV broadcasters upgrading to digital, this solution delivers the reliability of NDS's conditional access technology with the flexibility to be deployed on multiple set-top boxes. The solution is ready for deployment today."

"As the pioneer of removable security for Digital TV broadcasts, SCM supports the goals of the Korean government in adopting OpenCable for its digital cable TV roll-out," said Robert Schnelder, chief executive officer of SCM Microsystems. "Removable security forms the base for an open standards-based digital television industry that is both competitive for consumers and profitable for operators. We are pleased to be working with our long-time partner, NDS, to develop and deliver an end-to-end OpenCable solution for the Korean market."

Korean OpenCable POD solution

Each of the partners presents a solution that builds on their unique capabilities. SCM Microsystems manufactures the OpenCable Point of Deployment (POD) module to securely decrypt broadcast signals for authorized subscribers. SCM initially developed the OpenCable POD hardware platform for the US digital TV market, and the POD standard has now been selected by the Korean government for that country's digital cable deployment. Together, SCM and NDS previously created an NDS version of the POD module for the US marketplace and the companies are now developing a specific NDS version for the Korean market. NDS Open VideoGuard is the conditional access security for digital cable TV



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broadcasting that ensures viewers pay for what they watch and also enables interactive TV services.

The OpenCable POD module is a removable, hardware device that encapsulates conditional access and security functionality, and which can be slotted into any OpenCable-based set-top box. The use of the POD module enables the broadcast signals to be securely decrypted by multiple set-top boxes, while providing greater flexibility to the operator's business plans and conforming to standards as set forth in the OpenCable specifications.

The Korean government has selected OpenCable standards for cable TV broadcasting operations in the country. OpenCable is a set of specifications originally developed by Cable Television Laboratories (CableLabs®) for the North American cable TV market. Standards Organization Telecommunications Technology Association (TTA) will be establishing a test lab to test set-top boxes in Korea for compliance with OpenCable standards.

About SCM Microsystems

SCM Microsystems (Nasdaq: SCMM, Neuer Markt: SMY) is a leading supplier of solutions that open the Digital World by enabling people to conveniently access digital content and services. SCM's Security business provides smart card reader technology for the PC platform and conditional access modules for the digital TV platform to OEM customers in the government, financial, enterprise and broadcasting markets worldwide. The Company's Digital Media and Video business provides hardware, software and silicon solutions for creating and sharing digital media content to the worldwide retail market under the Dazzle™ brand. Global headquarters are in Fremont, California, with European headquarters in Ismaning, Germany. For additional information, visit the SCM Microsystems website at www.scmmicro.com.

About NDS

NDS Group plc (NASDAQ/NASDAQ Europe:NNDS) is a leading supplier of open end-to-end digital pay TV solutions for the secure delivery of entertainment and information to television set-top boxes and personal computers. See www.nds.com for more information about NDS.

Cautionary Statement Concerning Forward-Looking Statements

This document contains certain 'forward-looking statements' with the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's views and assumptions regarding future events and business performance as of the time the statements are made. Actual results may differ materially from these expectations due to changes in global economic, business, competitive, market and regulatory factors. More detailed information about these and other factors that could effect future results is contained in our filings with the Securities and Exchange Commission. The 'forward-looking statements' included in this document are made only as of the date of this document and we do not have any obligation to publicly update any 'forward-looking statements' to reflect subsequent events or circumstances.

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